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SUBJECT: ANOTHER DUESSELDORF-BASED BANK RESCUED

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¶1. (SBU) After German state institutions intervened in 2007 to save the well known WestLB and IKB banks, the "Duesseldorfer Hypothekenbank" (DHB), this week also required a rescue operation. In a "forced sale" on April 21, a fund controlled by the German Association of Private Sector Banks (BdB) took over this little known family-owned private bank with 27 billion euros in assets. The Managing Director of the Association's North Rhine Westphalia (NRW) branch told us that BaFin and the Bundesbank became heavily and directly involved in order to preserve the integrity and reputation of the German "Pfandbrief" market, which in turn plays an important role in real estate financing and municipal finance markets. The bank's collapse could have undermined confidence in these two key markets. (Note: Pfandbriefe are covered bonds, a special form of mortgage backed security that has been issued in Germany for more than 100 years and are considered "ultra safe." They are a central product in German capital markets. End Note)

¶2. (SBU) Our BdB interlocutor saw little direct relationship between this case and U.S. subprime woes. According to the Fitch rating agency, the capitalization of DHB was "barely adequate," despite a 150 million euro capital injection earlier this year by the former owner, the Schuppli family. Our interlocutor speculated that downgrades by rating agencies triggered the crisis at DHB. This in turn affected the bank's liquidity (although a DHB Director denied to the press that this was the problem). Our BdB interlocutor called the rescue operation "serious, but not of the same dimension as the crises at WestLB, IKB or SachsenLB." The BdB takeover of DHB is only temporary and that a sale is expected as soon as an appropriate buyer can be found, he stated.

¶3. (U) This message was coordinated with Embassy Berlin.

BOYSE